



## Capricorn Unit Trusts' Annual Financial Statements

The summarised report of the 30 June 2022 Annual Financial Statements of all the Capricorn Unit Trust Funds are available on our website under the "News Platform" section.

View it here: [Financial Statements](#).

We are proud to announce that the Capricorn Unit Trusts returned a profit of more than a billion (N\$1,066,221,703) in the form of distributions to the Unit Holders.

The audited Financial Statements and the auditor's report thereon are available for inspection at the company's registered office.

## Taking a look at the Mid-year Budget Review for Namibia

The Minister of Finance (MoF) presented the Mid-Year Budget Review (MYBR) on the 25th of October 2022. A collective sigh of relief was nearly audible since it delivered a much improved picture concerning the state of the Government's finances. For example, the MoF now aims to reduce the deficit-to-GDP ratio to 2.4% over three years. We are not

out of the woods yet and the road will not be smooth by any means, while concerns remain about the effectiveness of spending, which is whether we are getting "bang for our buck". However, we are primarily concerned with the overall, big numbers as it pertains to fiscal sustainability.

### Macro assumptions

Nominal GDP growth, that is real growth plus inflation, is the key driver of revenue growth. In this regard, the assumptions of the MoF are quite conservative at around 5.5% pa. We think it is likely to be closer to 8.5% pa, that is real growth of 3% to 4% and inflation of 4% to 5%. In the current fiscal year, we are likely to see 4.5% real growth and 6.7% inflation. This outlook is the main underlying reason for the expected improvement in the fiscal trajectory.

Over the first two quarters of 2022, real GDP growth averaged 6% yoy, while inflation had risen to around 7%. This means that, even if the economy cools and inflation drifts down, nominal GDP growth ought to remain quite firm. In the past, nominal GDP growth of less than 7.5% pa was quite rare. In the same two quarters, indirect taxes were up 16% yoy in real terms, which augurs well for Government revenue.

### Revenue

Better than expected revenue collections are the main reason for a much improved fiscal trajectory. For the current fiscal year ending March 2023, or FY23, revenue is now expected to be N\$4.4bn higher than budgeted with non-mining corporates delivering N\$965m, VAT N\$1.2bn, dividends and profit share N\$1.5bn and personal income tax N\$645m, which are better than expected numbers. This means that total revenue amounts to N\$64bn for FY23, representing an increase of 15.7% compared to FY22.

Further out, starting with FY24, i.e. next year's Budget, corporate tax on diamond mining is expected to be more than double previous expectations of around N\$1.5bn pa, rising from N\$3.2bn to N\$5.4bn by FY26, personal income tax to be better by about N\$1bn pa, while VAT is also expected to be up more on the back of recovering nominal GDP growth. Better SACU revenue is expected for the two years following that of the upcoming Budget, which is supported by the growing SACU pool that is envisaged in the South African Budget.

Personal income tax contributes 25%, Corporate income tax 13%, VAT 22%, SACU revenue 22% (a low point) and non-tax revenue about 10% to total revenue.



### **Expenditure**

The better-than-expected revenue for FY23 is absorbed by higher spending on the wage bill of N\$2bn, N\$1bn for goods and services, N\$600m for subsidies and transfers and N\$500m of capital spending. This means that total spending amounts to N\$74.7bn for FY23, a 6.2% increase compared to FY22.

Over the past five years, including FY23, total spending grew by an average of 2.7% pa. We envisage that it will continue to grow at a similar rate over the next five years. The wage bill and the interest bill are the main areas where serious controls are needed. Wages absorb 50% of revenue and interest 14%, therefore nearly two-thirds of revenue.

### **Deficit**

The numbers above show that the estimate of the deficit for FY23 remains virtually unchanged at N\$10.6bn or 5.1% of GDP, albeit a much improved situation from the previous two years' 8% levels. Furthermore, going forward, the upshot is that a surprisingly fast reduction in the deficit can now be achieved, reaching a virtually balanced budget in four years. The MoF has put it out there that the deficit will be reduced to N\$9bn, N\$5bn and N\$2bn over the next three years. One can only hope that this reach for sustainability and fiscal health is not completely derailed by slippage on the spending side.

### **Debt**

The MoF emphasised that the rate of debt accumulation must be halted. Certainly, the build-up of debt over the past several years has made investors, that is lenders to Government, jumpy, resulting in ever-increasing demand

for returns concomitant with perceived risk. This means that Government must borrow at 12% on a 10-year horizon and 15% on a 30-year horizon, very expensive funding that crowds out other, much needed social spending as well as the private sector's ability to raise funding at reasonable, economically viable, rates.

The only way to lower the cost of funding for the government specifically and the economy broadly, is for fiscal risk to be addressed as envisaged in the MYBR. If the projections are taken seriously by Government, the debt-to-GDP ratio could be lowered from the current nearly 70% to below 50% by FY29. At the outset, this will not be enough to gain back the coveted investment-grade credit rating, but it will be the start of the long road back to health.

## **Capricorn Foundation pledges N\$ 500 000 to the One Economy Foundation**

"The Capricorn Foundation commits to partner with like-minded organisations like the One Economy Foundation to address issues faced within our communities and to find sustainable solutions. The Capricorn Foundation's pledge is earmarked towards the Project #BeFree Centre of Excellence educational area. This support crosscut two of our Foundation's focus areas: education and health. We believe this is a start of a long-term partnership between the Capricorn Foundation and the One Economy Foundation", said Marlice Horn, Executive Officer of the Capricorn Foundation.

Capricorn Asset Management is proud to be a key contributor to the Capricorn Foundation.